

Summary of Stakeholder Meeting Notes

Unit 99, January 18, 2008

Purpose of Stakeholder Feedback Sessions

The San Jose City Council has authorized the Stakeholder Feedback Process to:

- Provide information about the new GASB (Government Accounting Standard Board) requirements and current/future retiree health cost liabilities, and to
- Solicit ideas from stakeholders about how to respond to the new GASB requirements and how best to pay for and manage future retiree health care costs.

Guiding Principles Offered by Stakeholders

The following are Stakeholders' points of guidance for the decision-making process related to GASB requirements and the City's/employees' current and future retiree health care obligations:

- Don't lose sight of the funding and other differences between the Federated and Fire & Police Plans by always combining both liabilities into one estimated number.
- Funding should closely approach (if not equal) the ARC so the larger discount rate assumption can be used in the actuarial reports (> 8% instead of ~ 5.6%). Potentially, this could make a \$400m difference.
- Use of an irrevocable trust should be studied, but realize future uncertainties could make these sorts of trusts problematic (e.g. passage of universal healthcare, etc.)
- In communicating, be sure to be clear that the recommended ARC is being almost half way funded already.
- Since the %'s of pay contributed by the City and employees to pay for active/retiree healthcare are increasing about 40% (1.4% of pay additional each on July 1, 2008), this increase should be used as a strong example of the very negative impact increases in cost trends in the plans have on everyone. And by extension, this should be an excellent opportunity to focus on controlling the plans' costs even more than before.
- There is a potential for "over-favoring" retirees as plan costs increase. For example, the 2006 plan cost increase is causing a 1.4% additional payment from employees' pay on July 1 (and the City has to contribute an equal amount), but there's no commensurate sharing of the load by retirees. In fact, in some good pension performance years, retirees have actually been given

checks as distributions of the larger-than-expected pension fund earnings. If time could be turned back, these checks should have been deposited into the retiree medical fund instead of being spent by retirees.

- Consideration does need to be given to extending the eligibility period from the current 15 years to something longer. But planners should be cautious that any new eligibility period not be out of line with other employers the City competes with for personnel.
- If total compensation is considered, the ratio of median income of San Jose workers relative to the median income of San Jose area residents should be considered in relation to comparison employers' employees/residents ratio.
- If a longer eligibility period is decided on by the City Council, it should be phased in based somewhat on what service Plan participants have accrued so far. For example, a change from 15 to 20 years eligibility would have a very disproportionate impact on an employee with 14 years' service compared to an employee with five years of service.
- Any change in the eligibility period from 15 years may create decreased morale and litigation. The possible time and expense of litigation and other costs of a change in the eligibility period should be estimated in advance and taken into consideration in the planning process.
- It is difficult to impose changes on actives (and even more problematic with retirees) so planners should step back and carefully design exactly the way all employees' and retirees' plans should look and start offering that/those plan(s) to all new employees. This should be an early priority.
- Reducing benefits would cause a decrease in the attractiveness of the City of San Jose as a place to work. This could/would affect current and prospective employees (recruiting and retention) and the public's perception as well.
- Cautious consideration could/should be given to an OPEB bond issue, but everyone must realize this creates a fixed cost for a less-certain future liability and obligation.
- In deciding what other employers to survey, the emphasis should be placed on finding good solutions across the US more than trying to only survey employers that are comparable to the City of San Jose. However, a special sub-set of the survey population should look as much like us as possible (sworn personnel, high living costs, etc.).
- The private sector should especially be surveyed since they're ahead of us in terms of wellness programs.
- Today's active employees seem to be the central focus of possible changes to overcome retiree cost challenges. Retirees need to be involved more and more flexibility and choice making need to be built in for actives.
- Imposing changes is not a market solution. Give people choices of solutions and let them decide which solution(s) to choose in their own situations.
- Stakeholder feedback is good but it doesn't involve employees and retirees enough. Make the impact real for everyone (answer what is all of this going to do to me?). Maybe use a survey to let everyone input and "vote" on possible solutions.

- Unit 99 employee members have experienced being “guinea pigs” or cannon fodder in the past, and now, Unit 99 members have a strong and widespread concern that they could be the guinea pigs in efforts to overcome retiree health cost challenges as well. It will be important for the City to not see us in this light.
- These implications and possible changes are very abstract. Answer the question, “What impacts will all of this have on me and my paycheck?” Tangible education is critical.
- If employees and retirees don’t participate and give input, the Council will have to impose. Change is inevitable—it’s far better to have helped shape the changes.
- The need for the future is a constructive, collaborative search for solutions, not an irrational resistance to changes that are necessary (and only brought to light by GASB). Focus on workable, acceptable and effective options to avoid losing benefits.

Possible Actions and Ideas Suggested by Stakeholders

The following are Stakeholders’ suggestions and ideas about how to respond to GASB requirements and to pay for/manage current and future retiree health care obligations:

- When good pension fund earnings occur, use the larger-than-expected pension returns to help offset retiree medical obligations.
- Pay or accumulate as much up front so the funds accrue more earnings to offset ultimate costs.
- Develop models to demonstrate the pros and cons of transferring some of the pension plans’ 88% funding to the medical fund.
- Although Unit 99 Stakeholder Session participants agreed the savings might not be large in the short-term, they also believe the possibility of waiving retiree coverage while a good plan of medical coverage remains available elsewhere should be investigated. Currently, retirees are required to take the City’s Retiree Plan and contribute in order to preserve City Plan eligibility for when the other plan is no longer available. Consequently, investigate the cost/benefit of allowing retirees an option to remain in another plan (thus avoiding contributions costs) and only entering the City’s retiree plan when the other plan source becomes unavailable.
- Develop wellness programs for active and retiree participants, and at least as importantly, change the culture at the City to visibly and strongly support wellness programs and risk-reduction efforts.
- One of the most medically-expensive times in life is during the final year of a patient’s life. Investigate what new measures could be adopted to use more cost-effective treatment and palliative care (pain-control) techniques, and to provide a more positive quality of life in the last months of a person’s life.
- Relatively speaking, the co-pays in the active and retiree plans are low compared to other plans. Well-documented facts about these differences

should be communicated before any changes in co-pays are adopted. The same applies to other possible changes.

- In the survey and in the planning process, look for creative and innovative ways to approach cost controls. “Old-style” changes won’t be as effective as new ideas. In-lieu-of payments or pay increases for using another employer’s plan instead of the City’s Plan are examples.
- Let people shop around. Consider how premiums for individual plans retirees choose in the marketplace could be paid from the trust instead of automatically contributing toward the least costly plan and/or retirees having to pay more for a City-only offered choice to the Kaiser Plan. This premium-payment arrangement would be especially helpful in geographic areas where a Kaiser Plan isn’t available.
- Consider joint purchasing with other large purchasers to control costs.
- Investigate alternatives to the current contributions arrangements (single + 1, etc.).
- Educate users of health care how and why to be better medical purchasers.
- Make sure all possible cost controls and ancillary program vendors are considered if they’re more cost effective than current arrangements (i.e. ICM (Individual Care Management), Pharmacy Benefit Managers, eligibility audits, etc.).
- Increase participant engagement. Create easy-to-use, interactive models participants could use to learn the effects of changes in their own situations. The future under the status quo could be shown as the baseline for comparison.
- As much advance notice of changes as possible should be given to both allow collaborative input and to adjust career plans in accordance with the coming changes.
- Be sure the Retirement Boards are dialed into developing the possible changes.
- Study the soft-side impact of all changes on the workforce. For example, what are the implications for retention if the eligibility period is adjusted and which portions of the workforce will be most affected? What will be their likely response? What would be the extent and effect on departments/services of a possible retire-as-quickly-as-possible surge?
- The actuaries need to show the five-, ten- and 15-year cost impact of doing no more than we’re doing now (status quo), then compare the status quo projection to phased-in full funding and other in-between scenarios.
- On the website and elsewhere, show the Kaiser Family Foundation’s 20-year health cost/pay/inflation chart, and add the City of San Jose’s actual cost increase experience compared to the national trends.
- Educate and communicate as much and in as many ways as possible to reduce the participants’ “fear factor”. Also, ensure all employees and retirees are aware of their avenues to give input to the retiree challenges listening process. A good start is the “Contact Us” portion of the website.

- Be very thoughtful about selection of words used in connection with the retiree future costs challenges. “Rich benefit plans” carries a different meaning to the public and Council than to the Plan participants.
- Frame the issue properly. In presentations, give more emphasis to why/how to fund the obligation than simply GASB’s disclosure requirements. Start presentations with “Setting aside GASB and possible effects on bonding....”

Open Questions to be Researched

1. Why the “urgency” now? Do we know for sure that bonding considerations would deteriorate if we have a “plan for remediation” but not full funding?
2. What are the most effective steps to either control costs and/or to control contribution increases?

Next Steps

- Continue the Stakeholder Feedback Process
- Post results of each Stakeholder Session on the City’s Website
- Incorporate added comments
- Assemble all Feedback Session results into a non-evaluative report of Stakeholder Feedback and ideas for the City Council